2006-07 Governor's May Revision Highlights California Department of Health Services

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PROGRAM OVERVIEW

The mission of the California Department of Health Services (CDHS) is to protect and improve the health of all Californians.

The Public and Environmental Health programs administered by CDHS provide services addressing the prevention and control of chronic diseases including various cancers, cardiovascular diseases, diabetes, and other conditions; the investigation, prevention and control of infectious disease; the prevention and control of environmental and occupational diseases; the prevention and control of injuries; the assessment, prevention, and interruption of the transmission of HIV and provide for the needs of HIV-infected Californians. In addition, the programs provide financial support and professional consultation and assistance to local health systems; protect the public from consuming unsafe drinking water; regulate the generation, handling, and disposal of medical waste; oversee the disposal of low-level radioactive wastes; and protect and manage food, drug, medical device and radiation sources.

The Health Care Services Programs provide services to ensure low-income Californians have access to appropriate health care. Medi-Cal provides health care services to qualified persons and families, including low-income families, the aged, blind and disabled, children in families with low-incomes or in foster care, pregnant women, and low income people with specific diseases. Licensing and Certification regulates the quality of care in public and private health facilities, clinics and agencies, and licenses Certified Nurse Assistants, Home Health Aides, and other direct care staff. The Laboratory Science Division licenses and inspects laboratory facilities and licenses laboratory personnel. County Health Services disburses and monitors funds to counties for hospital, physician, and related health services. Primary Care and Family Health administers programs that ensure access to comprehensive and coordinated family-centered, community-based, preventive and primary care services to low-income women, infants, children, and families.

GENERAL BUDGET OVERVIEW

The CDHS budget supports activities and services that reinforce the State's commitment to protect and improve the health of all Californians. The revised CDHS budget for fiscal year (FY) 2006-07 is \$ 40.5 billion. This represents a total increase over the FY 2006-07 Governor's Budget of \$2.1 billion. The changes to the 2006-07 Governor's Budget proposed by the CDHS are detailed in the following section.

DHS Budget by Fund Source *						
Fund Source	2004-2005 Actual		2005-2006 May Revise Estimated		2006-2007 May Revise Proposed	
General Fund	\$	12,239,219	\$	13,486,449	\$	15,710,521
Federal Funds	\$	19,904,522	\$	20,027,238	\$	21,495,814
Special Funds & Reimbursements	\$	3,217,605	\$	3,281,493	\$	3,332,441
Total Funds	\$	35,361,346	\$	36,795,180	\$	40,538,776

^{*}Dollars in thousands

MAY REVISION UPDATES

Addressing Gaps in Health Care Surge Capacity

8.5 Positions \$388,108,000 Total Funds \$387,684,000 General Fund

\$ 424,000 Special Fund

The CDHS and the California Emergency Medical Services Authority (EMSA) are together requesting \$400,424,000 (\$400 million General Fund (GF), \$424,000 Licensing and Certification Fund) and positions to address gaps in California's capacity to provide healthcare services required during both moderate and catastrophic emergencies. These funds will build upon and augment existing federal funding streams, and the new General Fund resources requested in the Governor's Budget emergency preparedness initiative. That initiative focuses on resources for local health departments and for State infrastructure, while this proposal focuses on the health care system's care capacity (surge capacity).

This proposal addresses gaps in health care surge capacity preparedness in three areas:

- standards and guidelines to assist the healthcare system and local governments in mounting a coordinated, integrated surge response that crosses facility and jurisdictional boundaries;
- the need for equipment and supplies necessary to respond to a moderate event; and
- the need for equipment and supplies necessary to respond to a catastrophic event such as avian influenza.

Specific proposals in each area are:

Addressing Surge Capacity Standards and Guidelines

 The funding will be used to rapidly develop State guidance and standards on the licensing flexibility, liability protection, reimbursement, standards of care, hospital surge plan templates, and standardized training curricula and exercises for surge response (\$5.2 million).

Addressing Moderate Event Surge Capacity Gaps

The funding will be used to:

- Develop and maintain hospital surge plans, including plans for surge staffing, infection control, equipment, systems for managing volunteers, training, and exercises. Strengthen existing emergency planning requirements to require documented hospital surge plans (\$14.5 million).
- Update hospital licensing and infection control regulations for responding to emergencies and to require all acute care hospitals to participate in surge planning (\$0.4 million).

Addressing Gaps in Catastrophic Event-Pandemic Influenza Surge Capacity The funding will be used to:

- Purchase 3.7 million courses of antiviral drugs through the federal 25 percent discount program (\$53.3 million).
- Purchase ventilators to double the number available (\$99.8 million).
- Purchase medical supplies for alternate care sites (\$164.4 million).
- Purchase N-95 masks for healthcare workers (\$50.5 million).

Federal Funds for Pandemic Influenza Preparedness

0 Positions

\$ 359,000 Total Funds \$5,845,000 Federal Funds (\$5,486,000) General Fund

This proposal requests an increase federal expenditure authority in FY 2006-07 for one time supplemental federal funds received by the Centers for Disease Control and Prevention (CDC) to address pandemic influenza preparedness and response.

In addition, CDHS is proposing to reduce the General Fund request included in the Governor's Budget for FY 2006-07 for activities related to pandemic influenza. The prospect of a worldwide pandemic influenza is increasingly likely; avian influenza is now found on three continents and is expected to be detected in the U.S. bird population sometime later this year. Planning for such as event which has societal and economic impact requires planning for increases in public health and medical capacity such as laboratory testing, surge in the health care system; and infectious disease surveillance as well as strategies for prioritizing allocation of vaccine, antivirals, and scarce medical resources.

Reduction in Federal Authority for Bioterrorism Funds

-6.0 Positions

(\$6,975,000) Total Funds (\$6,975,000) Federal Funds

This proposal addresses the current excess budget authority and reduces it to the current federal funding for FY 2006-07. The CDHS receives funds from the CDC and the Health Resources and Services Administration (HRSA) for anti-bioterrorism activities. The federal grant awards have been declining since the initial grant authorization in FY 2000-01. The current grant awards a total of \$103.8 million which represents a reduction of \$6.975 million from the current budget authority of \$110.775 million.

Licensing and Certification (L&C) Right-sizing Proposal

0 Positions

\$2,000,000 Total Funds \$2,000,000 Special Fund General Fund transfer in the amount of \$4,570,000

The CDHS is proposing to revise the L&C Fee Setting Methodology to "right—size" license fees through amended Trailer Bill Language (TBL) and the approval of the adjusted fee schedule for FY 2006-07. This proposal will eliminate statutorily set fees for health facilities and will equitably distribute the costs of licensing and regulating the various categories of health facilities based on L&C workload.

CDHS is also requesting \$2 million in L&C Special Funds to pay the cost of fingerprint criminal clearance processing required by State law for Certified Nursing Assistants (CNAs). Proposed TBL eliminates the application and renewal fees related to fingerprint criminal clearance and placement on the nurse aide registry currently paid by CNA's, Home Health Aids (HHAs), and Certified Hemodialysis Technicians (CHTs). A December 2005 Federal Office of the Inspector General (OIG) report found that California was in violation of Federal Law in requiring individuals to pay fees for placement on the nurse aide registries.

For budget year (BY), CDHS is requesting to increase the General Fund transfer to L & C by \$4,570,000 GF related to right-sizing:

- For continuation funding for licensing activities associated with Stateoperated facilities that are exempt from paying license fees (\$3,721,000); and
- 2) To continue providing the State match for federally certified-only facilities which are exempt from state licensure (\$849,000).

AIDS Drug Assistance Program (ADAP)

0 Positions

\$2,973,000 Total Funds \$2,973,000 Special Fund

This proposal requests additional funding for the AIDS Drug Assistance Program (ADAP) to cover the anticipated approval of a new antiretroviral, overall increased drug costs, and usage. ADAP is a program of last resort that provides life-saving drugs to Human Immunodeficiency Virus (HIV) infected individuals who need financial assistance.

Additionally, the Governor's Budget for FY 2006-07 includes a \$1.5 million reduction to ADAP's budget for FY 2005-06 current year (CY), in anticipation of savings due to implementation of the Medicare Modernization Act, Part D drug benefit. ADAP has identified an additional CY savings of \$8.005 million, as a result of the program's efforts to reduce costs by incorporating a new reimbursement structure in the Pharmacy Benefits Manager contact, and revising the guidelines regarding Medi-Cal screening of potential ADAP clients.

Caseload Funding for Cancer Detection Programs: Every Woman Counts

0 Positions
\$4,066,000 Total Funds
\$6,716,000 Proposition 99
(\$2,650,000) Federal Funds

This proposal requests additional funding from the Proposition 99 Unallocated Account for the Cancer Detection Program: Every Woman Counts (CDP:EWC). This augmentation will cover an anticipated shortfall due to reductions in the federal grant award and continuously increasing numbers of women seeking services. CDHS proposes to shift current Proposition 99 funding for Orthopedic Hospitals to the General Fund to allow for increased funding for the CDP:EWC program.

Laboratory Science/Laboratory Field Services

14 Positions

\$947,000 Total Funds \$947,000 Special Fund

This proposal increases expenditure authority for the Clinical Laboratory Improvement Fund (CLIF) to conduct oversight activities required by law. This proposal will (1) provide staff for fourth-year phlebotomy certification and first-year medical laboratory technician (MLT) licensure, (2) expand federal Clinical Laboratory Improvement Amendment (CLIA) inspections of waived laboratories funded by the federal Centers for Medicare & Medicaid Services (CMS), and (3) allow full licensure and registration of clinical laboratories over the next three years.

California Coalition to Cure Prostate Cancer Pass-Through Funding 0 Positions \$182,000 Total Funds \$182,000 Special Fund

This proposal requests an appropriation from the California Prostate Research Fund in order to fulfill the mandates of Assembly Bill 658 (Chaptered 562, Statutes of 2004).

Revenue is collected by the Franchise Tax Board (FTB) from voluntary contributions through the tax check-off portion of the personal income tax forms and is to be deposited into the California Prostate Cancer Research Fund. These funds are intended to provide the California Coalition to Cure Prostate Cancer with resources to provide grants to further prostate cancer research. The appropriation will allow CDHS to disburse the funds directly to the California Coalition to Cure Prostate Cancer so that they may provide research grants to develop and advance the understanding, causes, techniques, and modalities effective in the prevention, care, treatment, and cure of prostate cancer.

New and Additional Federal HIPAA Requirements

12.5 Positions

\$322,000 Total Funds \$322,000 Reimbursement

This proposal requests position and expenditure authority for two-year limited term positions to augment the CDHS' efforts to comply with the Health Insurance Portability and Accountability Act (HIPPA).

The Medi-Cal program is heavily impacted by the HIPAA Transactions and Code Sets (TCS) rule. A portion of the TCS rule requires changes to the way the Medi-Cal Managed Care Division (MMCD) sends enrollment and capitation payment data for over 3 million Medi-Cal beneficiaries to the contracted managed care plans.

CMS granted CDHS an exception to the HIPAA standards which allow for the use of the Universal Product Number (UPN) coding system for the payment of medical supplies as part of a pilot demonstration project. However, at the same time, CDHS must comply with HIPAA standards by converting over 4,600 local medical supply codes to the HIPAA named standard Healthcare Common Procedure Coding System (HCPCS).

The HIPAA exception allows CDHS to conduct a two-year study of the cost effectiveness of the UPN standard verses the HCPCS. The adoption of the UPN standard is expected to save \$30 million annually.

Adoption of the UPN and HCPCS standards are two distinct projects that require significant CDHS employee staff to support extensive and complex modifications

to existing pricing and payment methodologies, development of contracts with over 300 medical supply manufacturers, assessment of legal and fiscal impacts, public outreach and commentary activities, and implementation of the extensive changes to automated systems.

Emergency Drug Program for Medicare Part D Drug Program

Pursuant to SB 1233 (Statutes of 2006) which appropriated \$150 million in General Funds, CDHS operates an emergency drug program for people who are dually eligible for both Medicare and Medi-Cal but who are unable to get their prescription medications through Medicare. As of May 11, 2006, the program has served over 250,000 people and paid for over 1 million prescriptions at a cost of over \$67 million. The federal government will reimburse the state for payments made from January 12 to March 31 and it is estimated that the state will receive federal reimbursement of at least \$40 million. Pursuant to SB 1233 this program ends May 16, 2006, however, legislation is being considered that could extend this program in a modified format through January 1, 2007. This legislation would also reduce this appropriation.

MEDI-CAL LOCAL ASSISTANCE ESTIMATE CHANGES

Increase in Rates to All Managed Care Plans (PC 146)

The Budget Act of 2003 reduced provider payments by 5% effective January 1, 2004 which was implemented for all managed care plans. This decrease resulted in approximately a 2 percent decrease in plan rates. As the fee for service program did not decrease its rates, many managed care plans also did not decrease their provider rates. This rate reduction will be eliminated for each plan effective for dates of service beginning January 1, 2007. The cost of the rate restoration is expected to be \$32.7 million GF in 2006-07.

Additional Capitation Rate Increases for Plans in Financial Difficulty (PC 150)

The Department recently conducted a financial review of all Medi-Cal managed care plans to determine if any additional rate adjustments were needed to ensure that all plans would have sufficient resources to provide quality care to Medi-Cal beneficiaries. Six plans were determined to be in need of a rate increase. The rate increases will be implemented during FY 2006-07 at the start of each plan's new rate period. The cost in 2006-07 is expected to be \$30.6 million GF.

Federal Deficient Reduction Act Requirement on Citizenship Verification

The Deficit Reduction Act (DRA) of 2005 requires all United States citizens and nationals who apply for Medicaid (Medi-Cal in California) to provide evidence of citizenship or national status as a condition of eligibility. This new federal requirement is effective July 1, 2006, and would be required when people apply for benefits or, for current beneficiaries, at redetermination of eligibility. There are no exceptions to this requirement. Implementation of these DRA requirements is a condition of the State receiving federal funds. Failure by the State to act puts \$15 billion in annual federal funds at risk.

These requirements require state statute changes. By September 30, 2006, CDHS must submit a State Plan Amendment (SPA) to implement this change effective July 1, 2006.

The May Revise proposes trailer bill language that implements this federal mandate in a manner that uses as many alternate documentation sources as allowed under federal law including an electronic match of Medi-Cal records with birth certificate records. Further, Medi-Cal will provide applicants and beneficiaries with as much time as possible under federal rules to obtain this documentation. Lastly, the May Revise proposes trailer bill language that will allow the state to transfer money from the Medi-Cal program to county administration and the fiscal intermediary items to fund necessary administrative costs of implementing this program.

Conlan v. Bontá (PC 19)

In Conlan, Schwarzmer and Stevens v. Bontá, the court ordered the Department to develop a plan through which Medi-Cal beneficiaries who are unable to get reimbursement from providers for out-of-pocket medical expenses that should be covered by Medi-Cal can receive direct reimbursement from the Medi-Cal Program. This plan, which applies to services paid in the three months prior to application for Medi-Cal, while Medi-Cal eligibility was being determined and for other health coverage co-payments, is expected to be implemented in July 2006, with the first additional reimbursements beginning in October 2006. This is a delay from the February 2006 implementation date assumed in the November 2005 Estimate, resulting in a savings in 2005-06 of \$1.2 million GF. Benefit costs in 2006-07 are expected to be \$7.2 million GF higher than estimated in the November 2005 Estimate, based on the latest information about how the plan will be implemented.

Family PACT Rebates (PC 126) State Supplemental Drug Rebates (PC 129) Federal Drug Rebate Program (PC 130)

In order to best identify actual drug rebates received on a cash basis, the Department is now using Accounting records to identify the rebates received from drug manufacturers. Using these records identifies the fact that the Department is expected to collect \$159.7 million GF more in rebates in 2005-06 than assumed in the November 2005 Estimate (\$3.5 million GF in Family PACT rebates, \$48.0 million GF in state supplemental rebates and \$108.2 million GF in federal rebates). In 2006-07, the rebates are expected to be \$81.1 million GF higher than the November 2005 Estimate (\$25.8 million GF higher in state supplemental rebates and \$58.2 million GF in federal rebates; Family PACT rebates are expected to be lower by 2.9 million GF).

Medicare Modernization Act Part D Drug Benefit Significant Changes: MMA Medicare Drug Benefit (PC 28)
Medicare Payments – Part D Phase-Down (PC 57- Base)
MMA 100-Day Prescription Supply (PC 71)

On January 1, 2006, the Medicare Part D drug benefit included in the Medicare Modernization Act was implemented. Medi-Cal discontinued coverage of all drugs for Medi-Cal/Medicare dual eligibles enrolled in Part D that are covered by Part D. The number of persons enrolled in Part D is expected to be slightly lower than anticipated in the November 2005 Estimate. In addition, the savings from no longer covering the Part D drugs has been reduced due to higher rebates being identified for those drugs. Because of these changes, the savings identified in PC 28 for the elimination of coverage for Part D drugs will be \$18.8 million GF less than anticipated in 2005-06 and \$106.1 million GF less in 2006-07.

The cost identified in PC 57 for California to return to the federal government part of the savings obtained from no longer covering most drugs for dual eligibles, known as the 'clawback', is \$270.9 million GF less than expected in the November 2005 Estimate in 2005-06 and \$38.3 million GF less in 2006-07. These reductions are based in part on fewer dual eligibles. However, the main reasons for the significant reduction in costs in 2005-06 are the Centers for Medicare and Medicaid Services (CMS) allowing the states to pay the clawback owed for January and February 2006 over an eight month period from April through December 2006, and changes in the clawback billing process that specify that the payment for a clawback month is due two months after the clawback month. The November 2005 Estimate assumed a one month delay in payment, so this direction from CMS creates an additional one-time one month clawback savings in 2005-06.

To ensure no break in drug regimens for persons transitioning to Part D, the Department authorized prescriptions with 100 day supplies during the last months of 2005. The cost for these prescriptions, and the increase in prescription requests just prior to the implementation of Part D (PC 71), resulted in costs of \$35.4 million GF more than the \$19.5 million GF included in the November 2005 Estimate for this purpose. California has also provided emergency drug coverage for dual eligibles that should have been enrolled in Part D by the federal government, but were not, or who could not get the prescriptions they needed. This coverage, authorized by AB 132 (Chapter 2, Statutes of 2006), is budgeted outside of the Medi-Cal budget.

Hospital Financing Significant Changes: Hospital Financing – Private DSH Replacement (PC 58) Hospital Financing – Advanced Pay to DPH (PC 140) Hospital Financing – New Rate Reconciliation (PC 144)

SB 1100 (Chapter 560, Statutes of 2005) implements the provisions of the Medi-Cal Hospital /Uninsured Care Demonstration (MH/UCD) Waiver, approved in September 2005. All the decisions/processes needed to implement this complex waiver/legislation are still being finalized. This delay has led to the following changes in funding in the May 2006 Estimate: \$38.8 million GF expected to be paid to private hospitals for replacement of Disproportionate Share Hospital (DSH) funding (PC 58) will not be paid in 2005-06; rather, it will be paid in 2006-07; nine of the twenty-three designated public hospitals experiencing severe cash flow problems were paid advances of \$186.5 million GF in 2005-06 (PC 140), which are expected to be repaid in the same year now that federal DSH funding for those hospitals under the MH/UCD Waiver is available; and those designated public hospitals with interim rates based on certified public expenditures (CPEs) that are less than the amount they were paid through per diem rates (PC 144) will repay the rates paid above the CPEs once the Physician and Non-Physician State Plan Amendment is approved. This repayment is expected to be made in 2006-07, resulting in a cost of \$65.2 million GF in 2005-06 and savings of \$65.2 million GF in 2006-07.

Provider Payment Decrease: 5% Provider Payment Decrease – AB 1735 (PC 124) 5% Provider Payment Decrease Rescission – SB 912 (PC 139)

The Budget Act of 2003 reduced provider payments by 5% effective January 1, 2004. The Department was enjoined from implementing this reduction for feefor-service payments. The Department appealed this action and, in August 2005, the decision was reversed. AB 1735 (Chapter 719, Statutes of 2005) changed the effective date of the reduction to January 1, 2006 and maintained the original expiration date of December 31, 2006. SB 912 (Chapter 8, Statutes of 2006) rescinded the payment reduction, effective March 4, 2006. Savings for implementing the reduction specified in AB 1735 is included in PC 124. The

savings is \$9.7 million GF lower in 2005-06 and \$11.4 million GF lower in 2006-07 than budgeted in the November 2005 Estimate due to the elimination of dental savings. The two months of dental savings will be part of the adjustments made to the capitation rates paid to Delta Dental for 2005-06. The cost of the SB 912 rescission of the payment reduction of \$8.3 million GF in 2005-06 and \$30.3 million in 2006-07 is reflected in PC 139.

Eligibility for Children in Month Prior to SSI/SSP (PC 142)

The Deficit Reduction Act (DRA) of 2005 requires the states to provide Medicaid coverage to children under 21 who are found eligible for Supplemental Security Income (SSI) for the month prior to the month in which their SSI grant begins. As required by the DRA, this change will be implemented in February 2007. It is anticipated that 790 additional children will be covered a month. The 2006-07 cost is expected to be \$0.6 million GF.

Hurricane Katrina Section 1115 Waiver (PC 143)

The Department is participating in the Hurricane Katrina 1115 Demonstration Project waiver under which the Department receives 100% federal funding for Medi-Cal services provided to Hurricane Katrina evacuees between August 28, 2005 and May 31, 2006. Coverage for the evacuees is limited to five months from the date of application. The Department expects to receive this enhanced funding in 2006-07, resulting in a one-time savings of \$2.3 million GF.